TEXPROCIL urges Government to allow utilization of Accumulated Input Tax Credit on account of inverted duty structure

The GST Council in its 28th meeting held on July 26, 2018 has recommended to allow refund of unutilised ITC to taxpayers in the Textiles Sector. Accordingly, CBIC has issued Notification No. 20/2018 – Central Tax (Rate) dated July 26, 2018 to implement the above decision. However, the said Notification has stated that the accumulated credit lying unutilized as on July 31, 2018 will lapse.

Shri Ujwal Lahoti, Chairman of The Cotton Textiles Export Promotion Council said “This will lead to serious problems for the textiles sector as the costs will go up on the available stocks as on July 31, 2018”. Most of the dyes & chemicals and packing materials used by the textiles sector attract 12% and 18% GST. Further, in the case of manmade fibre textiles, fibre and yarn attracts 18% and 12% GST respectively. Whereas, the GST rate on fabrics is only 5% leading to accumulated Input Tax Credit on account of inverted duty structure.

Section 54 of the CGST Act allows “refund of unutilized Input Tax Credit shall be allowed where the credit has accumulated on account of rate of tax on inputs being higher than the rate of tax on output supplies”.

While the intention of the Government is to provide refund of accumulated Input Tax Credit on account of inverted duty structure to bring down the cost of the products, it appears some technical reasons such as bifurcating the input tax credit accumulations before 31.7.2018 and after August 1, 2018 for the purpose of refunds have led to the above decision to make the accumulated credits lying in balance as on July 31, 2018 become null and void, according to the Chairman, TEXPROCIL

Shri Lahoti pointed out that the refund applications for accumulated Input Tax Credits are processed manually by the concerned GST Commissionerates who while scrutinizing the applications and the supporting documents can ensure that all the credits for which the refund application have been filed pertain to the period from August 1, 2018 .

According to Shri Lahoti, fabrics manufacturers have paid the GST on all their inward supplies – both goods & services and have legitimately taken the Input Tax Credit Credits and, therefore, these Input Tax Credits should not be denied on fabrics by making them null and void.

The Chairman, TEXPROCIL urged the Government to allow the accumulated Input Tax Credits on fabrics available with the weavers as on July 31, 2018 for adjusting GST payment on outward supplies – both for domestic and export supplies.